British Columbia Buildings Corporation

ANNUAL REPORT

DOC
BC
B62
B
2003/04
c.3

bcbc

Facilitating workplace solutions

British Columbia Buildings Corporation
3350 Douglas Street, Victoria, BC V8Z 3L1
TEL: (250) 952-8500
WEBSITE: www.bcbc.bc.ca

For further information about the British Columbia Buildings Corporation,
please contact our head office by mail or
by telephone (250) 952-8331 or
by fax (250) 952-8282 or
by email at corpcomm@bcbc.bc.ca

This Annual Report is available on the BCBC website at www.bcbc.bc.ca

British Columbia Cataloguing in Publication Data

British Columbia Buildings Corporation
Annual Report — 1977/1978 — report year ends March 31
ISSN 0702-0511 — Annual Report — British Columbia Buildings Corporation
1. British Columbia Buildings Corporation
2. British Columbia — Public Works — Periodicals
TA 27 B7A2 354 711 0086068

LEGISLATIVE LIBRARY OF BRITISH COLUMBIA
3 3298 00285 2532

104-06140/

Table of Contents

2003-2004 ANNUAL REPORT

Letter of Transmittal

Corporate Overview 1
Strategic Foundation (Vision/Mission/Values)
Mandate
Core Services 2
Scope of Operations

Chair's Message 4

Accountability Statement 6

The Year in Review 7
Financial and Operational Highlights
Key Accomplishments 8

Report on Performance 12
Performance Overview 13
Performance Scorecard 14
Goal 1: Customer Success
Goal 2: Increase Value to the Shareholder
Goal 3: Strengthen Our Foundation
Goal 4: High-Performance Culture
Highlights and Exceptions 17

Management Discussion and Analysis 21
Key Financial and Operational Comparatives 26

Financial Statements 27

Report on Corporate Governance 39

Board of Directors 41

Executive Committee 42

Glossary of Terms 43

LEGISLATIVE LIBRARY
VICTORIA, B.C. V8V 1X4 JUL 0 5 2004

Minister of Management Services
and Minister Responsible for BCBC
Joyce Murray

Her Honour,

The Honourable Iona Campagnolo, PC, CM, OBC
Lieutenant Governor of the Province of British Columbia

MAY IT PLEASE YOUR HONOUR:

The undersigned has the honour to present the Annual Report of the British Columbia Buildings Corporation (BCBC) for the year ended March 31, 2004.

Joyce Murray
Minister of Management Services
and Minister Responsible for BCBC

Corporate Overview

Strategic Foundation

Vision

Our vision describes a compelling future state that we believe is both ambitious and attainable.

British Columbia Buildings Corporation will be vital to its customers' success and to the Shareholder by being their preferred strategic advisor and service provider of real estate and accommodation infrastructure solutions.

Mission

Our mission describes our business purpose: who we are and whom we serve; the business we are in; the value we bring to customers; and how we do this.

As the shared services provider to public sector organizations for real estate and accommodation infrastructure solutions, BCBC provides its customers choice and earns their business. Specifically, BCBC:

- Provides strategic advisory services;
- Facilitates the implementation of flexible, affordable and healthy workplace solutions; and,
- Provides innovative stewardship of its assets and resources.

BCBC will accomplish this mission by utilizing its expertise in real estate and accommodation planning; its distinctive knowledge of its customers, their programs, government and public policy processes; and, by collaborating with private and public sector business partners.

Values

These values represent our corporate and individual behaviors and define how we will treat our customers, suppliers and each other.

DEDICATION TO OUR CUSTOMERS

- We work to know our customers and treat them as partners.
- We are flexible, innovative and proactive.
- We make and keep our commitments – we get the job done!

INTEGRITY

- We treat all individuals with fairness, dignity and respect.
- We are open and honest.

TEAMWORK

- We support one another to achieve corporate goals.
- We support and develop our people to achieve our corporate and individual potential.

ACCOUNTABILITY

- We work with our customers to bring value to our shareholder and the taxpayer.
- We measure and monitor our performance to established targets.
- We are socially and environmentally responsible in our business operations.

Mandate

The British Columbia Buildings Corporation (BCBC) was established in 1977 as a Crown corporation and agent of the government. It was the provincial government's first shared services organization, providing accommodation and real estate services, initially only to the provincial government. In 1997 BCBC's shared services mandate was expanded by government to facilitate its doing business with the broader public sector, in order to provide greater opportunities for increased accountability and efficiencies in the planning, provision and maintenance of accommodation and related services.

BCBC's mandate is confirmed, as established, under Section 4 (1) of the *British Columbia Buildings Corporation Act*, and amended under Section 2 of the *Miscellaneous Statutes Amendment Act (No.2)*, 1997 to be as follows:

"The purpose of the Corporation is to serve as an agency of the government in providing land and buildings for accommodation of ministries of government, public bodies and agents, corporate or otherwise, of the government by lease or licence or any other arrangement for the use and occupation of the accommodation."

This mandate includes the following responsibilities:

- to provide cost-effective real estate and accommodation services to the public sector (a shared service provider function);
- to contribute to its customers' success by having a thorough understanding of its customers' needs and identifying related best value accommodation solutions; and,
- to fulfill an obligation to the shareholder to provide innovative stewardship of real property infrastructure.

BCBC is structured similarly to a private sector enterprise and uses private sector management and accounting methods. The Corporation ensures accountability by charging rents and professional service fees according to market principles and ensures that underlying policies are market-based. The application of market discipline provides for the efficient and effective utilization of provincial assets.

BCBC is in the midst of strengthening its shared services model, moving away from its primary role of landlord to that of strategic advisor and professional services provider, and to a customer-centric model which incorporates more service choices for customers.

Core Services

BCBC is both a professional services and supply management organization – the fundamental elements of a shared services organization. BCBC is organized into two lines of business: (1) management of the planning and delivery of real estate and accommodation infrastructure services (through the Customer Services Group), and, (2) asset stewardship on behalf of the shareholder (through the Portfolio Management Group).

The services provided by BCBC are grouped into the following three categories:

1. Strategic Advisory Services

- Strategic portfolio planning including capital planning, financing/procurement strategies and functional facility/inventory assessments
- Strategic asset management including strategic asset planning and the provision of tools
- Strategic accommodation planning
- Real estate policy and performance measurement
- Sustainability and environment management services

2. Workplace and Real Estate Solutions

- Workplace planning and design
- Workplace acquisition and disposal
- Workplace provisioning

3. Workplace Management

- Property management and maintenance
- Lease management

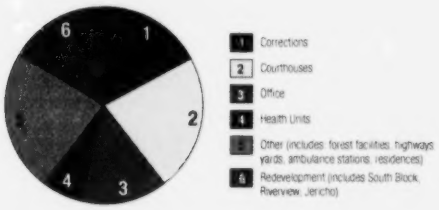
BCBC's Services Catalogue provides descriptions for each service provided by BCBC (available at www.bcbc.bc.ca/Corporate).

With the exception of professional strategic advisory services that are provided primarily by in-house professionals, most of the services that BCBC provides are delivered through contracts with private sector suppliers/consultants (over 5,700 contracts in over 300 communities). BCBC has a long history of successfully managing the performance of supplier contracts. In December, 2003 BCBC strengthened the supply management side of its operations by entering into a significant five-year performance-based service contract with Brookfield LePage Johnson Controls Workspace Solutions Inc. (BLJC WSI) to provide property management services for the portfolio of leased, owned and maintained properties that BCBC manages across the province. Effective April 1, 2004, all assignable property management service contracts will be managed by BLJC WSI.

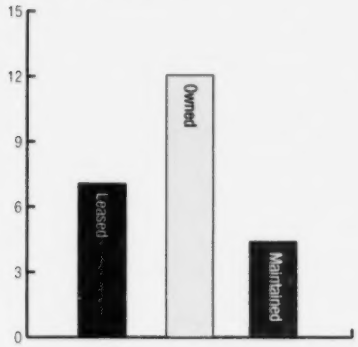
Scope of Operations

The Corporation manages, on behalf of the Province, a diverse real estate portfolio of leased, owned and maintained properties that extends throughout the province. This portfolio includes more than 23.5 million square feet (2.2 million square metres) of space. It includes a wide variety of types of properties/facilities, ranging from the Vancouver Law Courts and Robson Square Complex to heritage buildings dating from the 1860s, and includes: office buildings, residential institutions, courthouses, forestry complexes, ambulance stations, health units, correctional centres and highways facilities.

Owned Assets - by Use/Type
(12M sq. ft. in 2003/04)


1 Corrections
2 Courthouses
3 Office
4 Health Units
5 Other (includes forest facilities, highways yards, ambulance stations, residences)
6 Redevelopment (includes South Block, Riverview, Jericho)

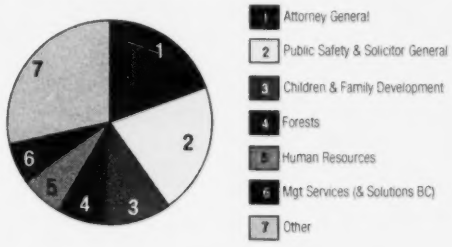
Leased, Owned and Maintained
(millions sq. ft.) 2003/2004



BCBC's Customers

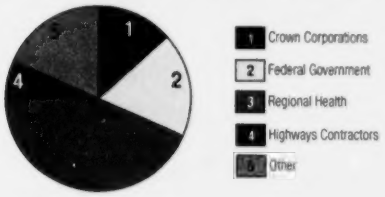
Approximately 75% of BCBC revenues come from services provided to provincial government ministry customers. The remaining 25% of revenues come from services provided to provincial Crown corporations, federal government, regional district and municipal government, regional health organizations, highways contractors, schools, universities and colleges, societies and associations and other customers.

Ministry Customers ($349M in 2003/2004)



Ministry customers are provided the full range of real estate and accommodation services, with terms/standards specified in the Accommodation Agreement and individual service agreements. The largest ministry customers are the ministries of Attorney General, Public Safety and Solicitor General, Children and Family Development, Forests, Human Resources, Management Services, Transportation, Health Services and Health Planning.

Non-Ministry Customers ($116M in 2003/2004)

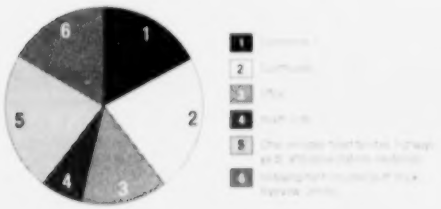


For non-ministry customers, services provided range from the full range of accommodation services to specific services as set out in agreements or memoranda of understanding (MOUs) for a specified term. The largest non-ministry customers are regional health organizations (Health Authorities, BC Mental Health Society, Forensic Psychiatric Services, BC Centre for Disease Control), Crown corporations (Royal BC Museum, ICBC, BC Pension Corporation), federal government (Public Works & Government Services Canada, Royal Canadian Mounted Police, Department of National Defense), highways contractors, schools, universities and colleges, and regional districts and municipalities.

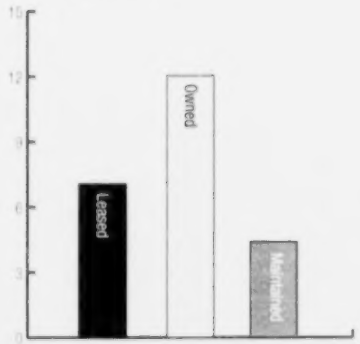
Office Locations

BCBC's services are provided to its customers from its Head Office located in Victoria, as well as through regional centers and field offices. BCBC's regional offices have been restructured, reflecting the transfer of property management staff and property management service delivery responsibilities to BLJC WSI. Effective April 1, 2004, BCBC's seven district offices have been consolidated into three regional centers in Victoria, Vancouver and Kelowna. In addition, there are BCBC field offices located in Nanaimo, Kamloops and Prince George. Field office locations will be re-evaluated during 2004/05 to determine whether there is a business case to maintain these offices beyond March 31, 2005. BLJC WSI has established a head office in Victoria, regional offices in Vancouver, Victoria, Kamloops and Prince George, and an Operations Centre in Kamloops to service BCBC and its other Western Canadian clients.

Owned Assets - by Use/Type
(12M sq. ft. in 2003/04)



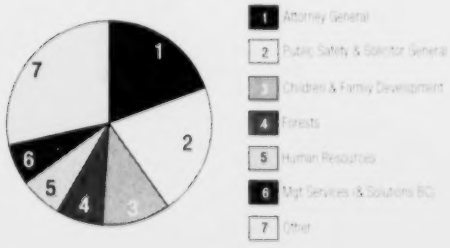
Leased, Owned and Maintained
(millions sq. ft.) 2003/2004



BCBC's Customers

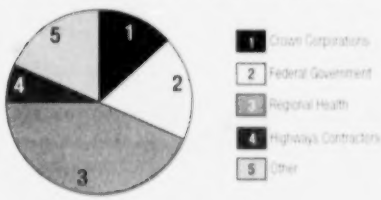
Approximately 75% of BCBC revenues come from services provided to provincial government ministry customers. The remaining 25% of revenues come from services provided to provincial Crown corporations, federal government, regional district and municipal government, regional health organizations, highways contractors, schools, universities and colleges, societies and associations and other customers.

Ministry Customers ($349M in 2003/2004)



Ministry customers are provided the full range of real estate and accommodation services, with terms/standards specified in the Accommodation Agreement and individual service agreements. The largest ministry customers are the ministries of Attorney General, Public Safety and Solicitor General, Children and Family Development, Forests, Human Resources, Management Services, Transportation, Health Services and Health Planning.

Non-Ministry Customers ($116M in 2003/2004)



For non-ministry customers, services provided range from the full range of accommodation services to specific services as set out in agreements or memoranda of understanding (MOUs) for a specified term. The largest non-ministry customers are regional health organizations (Health Authorities, BC Mental Health Society, Forensic Psychiatric Services, BC Centre for Disease Control), Crown corporations (Royal BC Museum, ICBC, BC Pension Corporation), federal government (Public Works & Government Services Canada, Royal Canadian Mounted Police, Department of National Defense), highways contractors, schools, universities and colleges, and regional districts and municipalities.

Office Locations

BCBC's services are provided to its customers from its Head Office located in Victoria, as well as through regional centers and field offices. BCBC's regional offices have been restructured, reflecting the transfer of property management staff and property management service delivery responsibilities to BLJC WSI. Effective April 1, 2004, BCBC's seven district offices have been consolidated into three regional centers in Victoria, Vancouver and Kelowna. In addition, there are BCBC field offices located in Nanaimo, Kamloops and Prince George. Field office locations will be re-evaluated during 2004/05 to determine whether there is a business case to maintain these offices beyond March 31, 2005. BLJC WSI has established a head office in Victoria, regional offices in Vancouver, Victoria, Kamloops and Prince George, and an Operations Centre in Kamloops to service BCBC and its other Western Canadian clients.

Chair's Message

2003/04 has been a challenging year for BCBC. The Corporation initiated and concluded a project to provide improved customer service by outsourcing its property management services (more than $100 million annual business) and also fundamentally restructured the organization by consolidating all customer service functions into one business unit.

This annual report is a companion document to the 2003-2006 Service Plan, which set out BCBC's direction and its financial projections and defined the resources needed to continue to run the business while restructuring the Corporation. BCBC is committed to providing transparent and accountable reporting of its progress against the goals and targets set out in that Plan.

Over the year, BCBC remained steadfast in meeting the five commitments made in the Core Services Review. Significant progress was made on all fronts.

Lucie Gosselin
Chair

1. **Strengthening BCBC's shared services model.**

   In its mission to become a truly customer-centric organization providing increased choice and flexibility, several key changes were initiated. All customer service functions have been consolidated into one business unit responsible for all phases of customer service. Service Agreements have been negotiated with customers; a Services Catalogue is under development; and the new full workplace provisioning service has successfully been piloted.

2. **Leading the government accommodation restructuring initiative (GARI).**

   The Corporation substantially completed the GARI initiative in support of government customers who were restructuring the way they delivered their programs. More than 1,100 accommodation projects were completed over the two-year period and below the approved budget. It is expected that government will realize cost savings in excess of the targeted $60 million for 2004/05.

3. **Accelerating the disposal of real estate assets.**

   For the second consecutive year the Corporation achieved a record number of property sales. Since 2001/02, the Corporation has sold over 200 properties and reduced its portfolio of owned properties by 13%. The proceeds from these sales have been utilized to substantially reduce the Corporation's net debt. Since 2001/02, BCBC has reduced its debt by $274 million (46%).

4. **Increasing the role of the private sector.**

   On April 1, 2004, BCBC successfully transitioned its delivery of property management services to Workspace Solutions Inc (WSI), a British Columbia subsidiary of Brookfield LePage Johnson Controls (BLJC). This complex undertaking was completed on time, under budget and without staff/labour issues and will result in cost savings to government in excess of $100 million over 10 years.

5. **Increasing the focus on health and education sectors.**

   During 2003/04, BCBC provided more services to the broader public sector, particularly to the health and education sectors. Support was provided to several Health Authorities (Fraser, Interior, Northern, Vancouver Island and Vancouver Coastal) and to the education sector (Royal Roads University and Conseil Scolaire Francophone).

In addition, other significant accomplishments include: exceeding the 2003/04 budgeted net income by $8.4 million (22%); and reducing net customer services and administrative costs by 9.9% (23.2% since 2001/02). BCBC has contributed to sustainability through the application of "green" buildings principles and practices. Since 2000, over $100 million has been committed in green building retrofits in schools, post-secondary institutions and health facilities. Finally, through its Vancouver Island Technology Park initiative, biomedical and high technology industries continue to be attracted to Victoria. Five hundred new jobs have been created in the past few years.

This year's accomplishments would not have been possible without the hard work of our employees, and I thank them all for their dedication and for rising to the challenge of an exceptionally heavy workload. I also thank the Board members for their counsel and dedication to public service.

I wish to extend our appreciation to the Honourable Sandy Santori for his support over the past years and welcome the Honourable Joyce Murray, who became our new Minister in January 2004.

Lucie Gosselin
Chair
Board of Directors

Accountability Statement

The 2003/04 Annual Report of the British Columbia Buildings Corporation has been prepared under my direction in accordance with the *Budget Transparency and Accountability Act*. I am accountable for the contents of this report, including the Report on Performance, which identifies the Corporation's success towards achievement of the goals and objectives in its 2003-06 Service Plan. Significant decisions, events and identified risks, as of March 31, 2004 have been considered in preparing this report.

Lucie Gosselin
Chair
Board of Directors

The Year in Review

Financial and Operational Highlights

- Net income of $46.5 million, 22% better than budget, reflecting high project revenues, reduced net customer services and administrative costs, and significant gains from property sales.

- Record year in property sales with total proceeds of $71.9 million and net gains from sale of $42.6 million, more than double the budgeted amount, for the second straight year.

- Net customer services and administrative costs 9.9% below budget and 23.2% below 2001/02.

- Net debt declines to $328 million (relative to $463 million at March 31/03) as result of early debt retirements, made possible by the accelerated sale of properties.

- Over 1100 GARI projects completed with annualized savings to customers of $63.3 million/year.

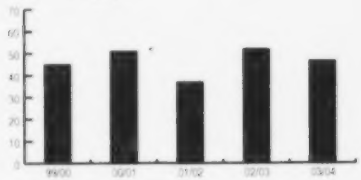
- Private sector expenditures (excluding capital and third party lease payments) increased to 74.8% (from 68.1% in 2002/03), reflecting the higher volume of projects; and represented 85.9% of total corporate expenditures.

- Concluded the RFP process and contract to outsource property management services effective April 1, 2004 to Brookfield LePage Johnson Controls Workspace Solutions Inc. (BLJC WSI).

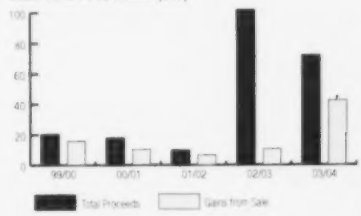
- Workforce reduced from 756 employees (at March 31/03) to 359, effective April 1, 2004.

- Absenteeism rate (2.8%) remains low at 5-year average, which is significantly below the public service benchmark.

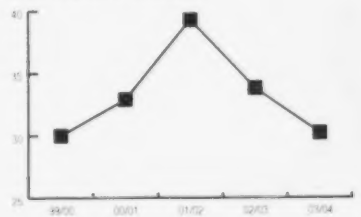
Net Income ($M)



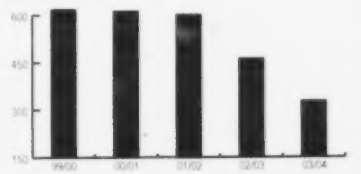
Total Sales Proceeds ($M)



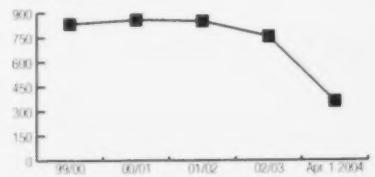
Net Customer Services & Administrative Costs ($M)



Net Debt ($M)



Employees (FTE's)



Key Accomplishments

2003/04 has been a transformational year for BCBC, marking the start of the Corporation's transition to a strategic advisory services organization. BCBC partnered with Brookfield LePage Johnson Controls, Workplace Solutions Inc. (WSI), a "best in class" provider of property management services, to deliver more efficient and cost-effective services to BCBC customers. On April 1, 2004, 325 employees (88% of those affected) chose to transfer to WSI to continue to serve BCBC customers through this new partnership.

Over the past two years BCBC successfully completed 1,100 projects related to the Government Accommodation Restructuring Initiative (GARI) and sold a record number of properties. These significant results are attributable to the dedication and strong work ethic of BCBC staff who accomplished these projects with constrained staffing resources – due to the large number of employees who took early retirement in 2002/03 and early 2003/04.

"[There is] a whole new customer service focus that wasn't there before...in the old days, they would have said, 'We'll just do it all for you' and now they're saying 'where are you trying to take it? and where do you see your organization heading?' BCBC can add a lot more value to my organization if we actually do things totally differently and view things through a different prism."
BCBC customer

2003/04 was also the year that BCBC set the foundation to become a performance-based, customer-centric organization. The Corporation's values – particularly *dedication to the customer* and *integrity* will guide its focus on customer success. In support of increased customer-focus, BCBC initiated the development of a Services Catalogue and Service Level Agreements (SLA) Framework; reorganized the Customer Services Group by customer segment; and implemented a new financial model and an enhanced approach to evaluating customer satisfaction.

BCBC's core values of *teamwork* and *accountability* provide the underpinnings for building a performance-based culture. Core competencies have been identified and a new Performance and Compensation Management System has been introduced to align employee efforts and priorities with the objectives of the Corporation.

As in the previous fiscal year, BCBC has made significant advances in each of its five key commitments to the Core Services Review, and is well positioned to achieve or surpass its 2004/05 targets. This section highlights the progress made in each of the commitments:

- strengthening BCBC's shared services model
- leading the Government Accommodation Restructuring Initiative (GARI)
- accelerating the disposal of real estate assets
- increasing the role of the private sector
- increasing the focus on the health and education sectors

Strengthening BCBC's Shared Services Model

BCBC has been a shared services provider of real estate and accommodation infrastructure services since 1977. Consistent with the government's objectives of streamlining public sector services, reducing costs and improving efficiency, BCBC committed to strengthen its shared services model by evolving into a professional services and supply management organization. This evolution demands an increased focus on customer service, cost minimization and asset stewardship.

During 2003/04 significant progress was made in the implementation of the following strategic initiatives in support of the strengthened shared services model:

Establishing Service Agreements

In 2002/03 the Corporation began to work with its customers to develop individual master service level agreements (MSLAs), which describe the business relationship and the customer's service delivery performance expectations of BCBC. MSLAs were signed with all of BCBC's ministry customers and with several large non-ministry customers. During 2004/05, BCBC will work with its partner, WSI, to develop operational service level agreements (OSLAs) setting out specific service levels and performance standards for the property management services provided.

Customers are being offered greater service flexibility/choice with respect to service standards, cost and choice of supplier.

Increasing Choice and Flexibility

A Services Catalogue has been developed as a tool to support the introduction of increased flexibility/choice for the customer. The Services Catalogue framework completed in 2003/04 includes a general description for each service provided by BCBC. Work is underway on detailed

service descriptions, pricing of services (including service levels and bundling) and identification of choice options. This will be made available to customers in early 2004/05.

Work continued in 2003/04 on development of the new Full Workplace Provisioning (FWP) service line – a one-stop shopping service that offers customers the option of using BCBC to manage all aspects of accommodation provisioning, including furniture and telecommunications. In support of the launch of this new service, an MOU was developed with the Purchasing Services branch of the Ministry of Management Services to support furniture procurement; and communications and collaboration protocols were established with the Common Information Technology Service (CITS). During 2003/04, BCBC and CITS applied their new FWP roles and processes to several cross-ministry work team projects. In addition, pilot projects enabled four major moves for the Ministry of Management Services and expedited furniture procurement for Family Justice in Vancouver. Participant feedback about this new service line has been positive.

Full Workplace Provisioning service line piloted with positive feedback from participants.

Increasing Focus on Customer Success

All customer service functions have been consolidated into one business unit (Customer Services Group), responsible for end-to-end customer service. Customers now have direct access to BCBC services through a single point of contact: the Account Executives (AEs). AEs are dedicated to customer segments (groups of customers with common characteristics) and are responsible for developing and managing the overall customer relationship. They work with Customer Solutions Managers (CSMs) to ensure end-to-end management of service delivery. Service delivery functions have been integrated into the Customer Services Group to facilitate the flexibility necessary to meet customer program requirements and to improve responsiveness and efficiency. In addition, the outsourcing of property management services reflects BCBC's movement towards increased partnership with the private sector to provide customers with the best service in the marketplace. Finally, to support its new business model, BCBC has adopted a financial model that is fee-for-service based. This new approach will result in increased transparency and accountability to customers.

Leading the Government Accommodation Restructuring Initiative (GARI)

Government appointed BCBC to strategically manage the restructuring of ministry accommodation infrastructure arising from the Core Services Review and the government's 2002/03 to 2004/05 budget process. This complex and highly sophisticated accommodation planning and space management initiative comprises the relocation, consolidation and renovation of ministry facilities. The target was to achieve $60M in total ongoing (annualized) accommodations cost savings in ministry budgets, while supporting changing ministry program and service delivery requirements.

Over 1100 GARI projects implemented with annual accommodation cost savings in excess of $63 million per year achieved for government ministries.

Overall, more than 1100 GARI projects were completed with annualized cost savings of $63.3M. This was accomplished within the two year established timeframe and with total project expenditures of $212M, well below the funding allocation of $225M. In addition to reaching financial goals, GARI was also successful in achieving stakeholders' objectives; producing service innovations, and increasing facility and process efficiency.

Significant shifts in ministries' service delivery have led to innovative accommodation infrastructure solutions for many customers. Solutions implemented included: creating an open office concept with systems/furniture; reorganization into pods; creation of circuit courts and consolidation of functions in various locations.

As well, the Cross Ministry Work Teams, established under the government's regionally integrated Service Delivery Project, were successful in achieving accommodation cost savings by redefining the way government services were delivered in their communities.

Accelerating the Disposal of Real Estate Assets

For the second consecutive year the Corporation experienced a record level of property sales. During 2003/04 140 properties were sold with total proceeds of $71.9M and associated net gains from sale of $42.6M, more than double the original budget. This was due to the accelerated disposal of highway yards, office and corrections sites, as well as the advancement into 2003/04 of a number of disposals previously planned for 2004/05, most notably the sale of the Woodlands property ($18.4M proceeds and $10.7M gains). The sales of large properties (Woodlands and New Haven) to private sector developers are expected to lead to the redevelopment of these sites.

The streamlined disposal process implemented in 2002/03 and more aggressive disposal plans in the past two years enabled the Corporation to take advantage of strong real estate markets to maximize the proceeds/gains on properties sold. This has resulted in the sale of 202 properties since 2001/02, with proceeds of $174M and net gains on sale of $53.1M. The Corporation has used the resulting cash flow to pay down its debt (46% reduction in net debt since March 31,2002), resulting in future interest cost savings for the Corporation and savings in rental charges to customers with special purpose properties.

Second year of record property sales – with 2003/04 proceeds of $71.9M and net gains of $42.6M.

Increasing the Role of the Private Sector

Effective April 1, 2004 BCBC successfully transitioned its delivery of property management services to Workspace Solutions Inc. (WSI), a newly created BC subsidiary of Brookfield LePage Johnson Controls (BLJC), the largest property management company in Canada. This marked the conclusion of an 11-month long initiative that included: a complex RFP and due diligence process; contract negotiations; multiple stakeholder consultations, and the transition of services, affected staff and local supplier service contracts to the new service provider. Under a performance-based service contract (signed on December 17, 2003), WSI will provide property management services on behalf of BCBC to all of BCBC's customers.

Outsourcing of BCBC property management services results in cost savings of $100+ over 10 years and creates 25+ jobs at WSI's Operations Centre in Kamloops.

Estimated direct and internal cost savings to government are expected to be in the range of $100M+ over 10 years. In addition, WSI's new Operations Centre, a key part of its service delivery model, became operational April 1st and will create over 25 new permanent jobs in Kamloops.

This effort represents the fastest completion of a public sector Property Management outsourcing exercise in Canada. This significant and complex undertaking was completed on time, under budget and without staff/labour issues.

The objective of this outsourcing initiative was to enter into a partnership with a proven service provider who shares BCBC's corporate values and could provide cost savings to customers while maintaining or improving service quality. This outsourcing is aligned with government's objectives to increase the use of the private sector and reduce the cost/size of the public sector, and will improve the provision of efficient and effective services to BCBC customers.

Increasing the Focus on Health and Education Sectors

During 2003/04 BCBC provided more services to the broader public sector, particularly to the health and education sectors. Agreements were signed during 2003/04 with the Fraser and Interior Health Authorities and Royal Roads University. The Corporation will function as Fraser Health Authority's shared services provider for real estate and accommodation services. For the Interior Health Authority, BCBC has completed a three-year capital asset management plan and developed a decision support approach to identify priorities among capital projects, (land, buildings and equipment). The Corporation will also assist Royal Roads University (RRU) in developing a strategic portfolio plan. In addition, during 2003/04, BCBC assisted the Vancouver Coastal Health Authority with plans for the relocation of beds from the Riverview location.

Moving Forward

The building blocks are in place to position BCBC for its transition to a strategic advisory/ professional service organization. The organization is committed to maintaining momentum and engaging its employees and customers in implementing the intended changes. BCBC will continue to focus on four primary goals: customer success; increasing value to the shareholder; transforming the organization, and enhancing its service culture, and will invest in the changes required to achieve these goals.

The 2004-2007 Service Plan (available at www.bcbc.bc.ca) describes BCBC's future vision, objectives, strategies, performance measures and targets, and also provides a thorough analysis of the strategic issues and risks facing the Corporation for this period.

Report on Performance

This Report describes progress made by BCBC in 2003/04 towards achieving the strategic goals defined in its 2003-06 Service Plan:

Customer Success: *Provide best value solutions and service delivery, which contribute to our customers' success.*

Increase Value to the Shareholder: *Leverage BCBC's capabilities to improve the efficiency and effectiveness of the public sector by providing innovative stewardship, advice and management for the delivery of real property and accommodation infrastructure services.*

Strengthen Our Foundation: *Strengthen the Corporation's shared service provider role and continue to implement best practices to optimize corporate performance.*

High-Performance Culture: *Foster a high-performance culture to ensure corporate, team and individual success.*

These goals align with government's priorities, particularly: fiscal accountability, improving the efficiency and effectiveness of public sector service delivery, and partnering with the private sector.

Performance measurement is an integral part of BCBC's Strategic Management process. BCBC uses the Balanced Scorecard process to translate goals, objectives and strategies into tangible measures and targets to drive action. The Corporation benchmarks its performance against industry standards where possible, and maintains a culture of continuous improvement. Exception reporting and trend analysis are key tools used to identify areas of opportunity. BCBC's performance management system provides quality assurance with respect to the measures, methodology and targets; monitors progress quarterly towards the attainment of goals and objectives; and, informs decision-making so that early corrective action can be taken.

Note: BCBC's **2003-06 Methodology Report** (available at www.bcbc.bc.ca/Corporate) provides an overview of BCBC's performance management system and each performance measure (including purpose, methodology employed, target rationale, data and benchmarking sources).

The 2003/04 Report on Performance is organized as follows:

- The **Performance Overview** provides a high-level summary of 2003/04 results.
- The **Performance Scorecard** provides a "rating" of results achieved against each of the strategies and targets established for 2003/04. For each performance measure, actual results against targets are provided with a discussion of the results.
- The **Highlights & Exceptions** analysis provides available historical trend information and a more detailed variance analysis for results, which exceeded (highlights) or fell short (exceptions) of expectations/targets. In the case of exceptions, information is also provided on planned actions to address shortcomings.

Performance Overview

Overall, in 2003/04, the Corporation was very successful in making progress against its strategic goals and objectives. Four major initiatives demanded careful management of both risks and resources: Government Accommodation Restructuring Initiative (GARI), outsourcing of property management services, accelerated sales program, and corporate transformation. For each initiative a disciplined project management approach was utilized. Project teams with clear accountabilities were established, adequate budget and staffing resources were dedicated; and, rigorous reporting schedules were adhered to.

All sixteen strategies set out in the 2003-06 Service Plan proceeded on schedule and met or exceeded planned results. Performance results met or exceeded targets for 18 of the 24 (75%) performance measures for which targets were established.

Targets were not established for the following three measures:

- *Measure 2.4 Office Vacancy Rate:* No target was set because of uncertainties related to government restructuring.
- *Measure 1.3b, Survey rating of extent to which full workplace provisioning solutions meet customer needs:* The decision was made to seek only qualitative feedback from participants in pilot projects to inform further development of this new service.
- *Measure 3.3, Percentage of customers indicating that BCBC's information technology solutions fulfilled their expectations:* Because of organizational changes, only packaged systems software applications were implemented affecting a limited number of users. Survey results were not reported as they were not considered statistically significant.

Performance Scorecard

Scorecard Legend

>> Performance significantly ahead of schedule/target substantially exceeded.

> Plans/target met or exceeded.

< Performance fell short of plan/target.

|| Scope/schedule modified/delayed.

Goal 1: Customer Success

Key Supporting Strategies

- Implement the Customer Relationship Management (CRM) business strategy. >
- Provide choice of services to our customers through customized Service Level Agreements. >
- Offer full-service workplace provisioning solutions to meet customer needs. >
- Lead the Government Accommodation Restructuring Initiative (GARI) to support each customer's business direction and optimize savings. >
- Continue to support our customers in the pursuit of Public/Private Partnership (P3) solutions within the framework developed by Partnerships BC. >

Objectives and Performance Measures		02-03 Actual	03-04 Target	03-04 Actual	Discussion
1.1 Increase customer satisfaction					2004 Customer Survey results showed a decline in performance ratings across key service attributes comprising the CSI. *See variance discussion of 2004 Customer Survey under Exceptions.*
• Customer Satisfaction Index (CIS)	<	66%	72%	62.7%	
• Percentage of customers with Service Level Agreements in place	>	45%	100%	100%	SLAs were completed with all ministry customers and with six significant non-ministry customers.
1.2 Retain customers					All customers and 98% of their associated revenues were retained.
• Rate of customer and revenue retention	>	100%	95%	100%	
1.3 Meet customer needs for choice and full service workplace provisioning					The "choice" scores from the 2004 Customer Survey were below target and declined slightly relative to the 2003 Survey. *See variance discussion of 2004 Customer Survey under Exceptions.*
• Survey index ratings for customer choice	<	64.9%	70%	62.2%	
• Survey rating of extent to which full service workplace provisioning solutions meet customer needs	||	Deferred	Establish baseline	N/A	A decision was made to use only a qualitative survey instrument to assist in the development of this new service. Participant feedback was positive.
1.4 Achieve Building Occupancy Charges (BOC) savings to customers					The 3-year (2004/05) $60M target was exceeded (estimated annualized savings of $63.3M have been achieved). Delay in completion of some projects resulted in this fiscal year's target being short. *See variance discussion under Highlights.*
• Total Annual BOC savings realized from government restructuring	>	$20.2M	$55M	$49.2M	

Goal 2: Increase Value to the Shareholder

Key Supporting Strategies

- Continue to implement best-practice portfolio management plans within the context of the new ownership policy. >
- Accelerate the sale of surplus and selected other properties to contribute to improving the province's fiscal situation while enhancing corporate performance. In particular, continue to develop innovative strategies for the re-use and/or disposal of properties, including: commercial properties, courts facilities, corrections facilities, highways yards and forest district offices. >>
- Continue to implement the Environmental Stewardship Plan. >
- Identify and pursue opportunities with customers to increase the efficiency of the management of real property and accommodation infrastructure in the broader public sector, particularly within the health and education sectors. >
- Provide support to government regarding efficient stewardship of the broader real property system of the province. >

Objectives and Performance Measures	02-03 Actual	03-04 Target	03-04 Actual	Discussion
2.1 Achieve targeted financial results				Performance reflects positive budget variances in revenues, net customer services and administrative costs and gains from sale. *See variance discussion under Highlights.*
• Net Income >>	$52.1M	$38.1M	$46.5M	
• Return on investment >	8.0%	6.5%	7.0%	Results reflect higher than budget income from operations and below budget overall asset levels.
• Return on equity >	16.6%	11.7%	13.4%	Results reflect higher than budget gains on sale, as well as higher than budget income from operations.
2.2 Enhance overall performance of owned portfolio	Combined 9.37%	8.45%	8.43%	Overall performance continues to be essentially at market. Decline for "Core Urban" and "Regional" is attributable to higher vacancy rates as result of government downsizing. "Regional" decline also reflects increase in landlord maintenance expenditures. Higher return for "Small/Remote" areas reflects disposal of under-performing assets.
• Return on investment for owned market-comparable office buildings >	Core Urban 9.19%	8.00%	8.10%	
	Regional 9.99%	9.50%	8.85%	
	Small/ Remote 9.31%	9.20%	9.59%	
2.3 Maximize value on properties sold				Accelerated sales resulted in proceeds and gains from sale more than double budget. *See variance discussion under Highlights.*
• Total proceeds on properties sold >>	$101.7M	$30.0M	$71.9M	
2.4 Maintain office vacancy rates below market				BCBC gross vacancy rate was slightly above market in Victoria (at 9%) and significantly below market in Vancouver (at 5%). No target was set because of uncertainties related to government restructuring.
• Office vacancy rate >	4.5%	No Target	9.6%	
2.5 Reduce environmental risks and hazards, and manage environmental liabilities.				Performance exceeds targets for both 2003/04 and 2004/05, with most sites having completed the remediation process. *See variance discussion under Highlights.*
• Status of risk management activity (contaminated site remediation) >>	58.9%	70%	87%	
2.6 Increase support to Health, Education and other government sectors.				Nine MOUs were signed over the past two years, exceeding the two-year target (8).
• Number of Memorandums of Understanding (MOUs) signed >	6	4	3	

Goal 3: Strengthen Our Foundation

Key Supporting Strategies

- Implement alternative approaches, including outsourcing, to increase the use and role of the private sector in service delivery and property development. >>
- Continue to restructure and streamline the organization to support the strengthened shared services business model. >
- Review and improve our business practices, systems, and processes to enhance our corporate performance and to effectively respond to customer, shareholder and employee needs. >

Objectives and Performance Measures	02-03 Actual	03-04 Target	03-04 Actual	Discussion
3.1 Increase use of the private sector				Targets for both methods of measuring private sector activity were exceeded due to a higher than anticipated volume of customer driven projects.
• % of corporate expenditures with the private sector >				
(i) All expenditures	84.1%	85.0%	85.9%	
(ii) Excluding capital exp. & 3rd party leases	68.1%	68.0%	74.8%	
3.2 Increase efficiency and decrease overall and unit costs				2003/04 costs of $30.2M were substantially better than target of $35.4M and the final budget of $33.5M. *See variance discussion under Highlights.*
• Net customer services & administrative costs* >>	14.1% <01/02	10% <01/02	23.2% <01/02	
• Operations and maintenance (O&M) costs per square metre for owned office buildings >>	18% < benchmark	5% < benchmark	15% < benchmark	Results of $46.87/m² were substantially below the BOMA 2003 benchmark and slightly lower than 2002/03 ($48.51/m²). *See variance discussion under Highlights.*
• Lease costs per square metre >	N/A	<benchmark ($115.39)	5.2% < market ($109.36)	2003/04 benchmarking study compared lease rates on BCBC leases negotiated in 2002/03 with comparable market leases. BCBC was 5.2% below market overall, and outperformed the market by a more significant margin for lease renewals (7.5%) than for new leases (4.3%).
• Corporate operating margin >	16.0%	12.9%	12.8%	Target was revised (from 13.4%) due to reclassification of certain budget items. Operating margin continues to decline, reflecting the disposal of owned properties and the Corporation's continuing shift to provision of advisory services.
• Ratio of area managed per operations and maintenance employee (m²/O&M employee) >	7,414	7, 250	7,303	Results were above target. Lack of improvement relative to 2002/03 reflects reduced size of portfolio managed. With the focus on outsourcing and transition of O&M employees to the new provider, no new process efficiencies were introduced.
• Energy intensity (MJ/m²) >	1,205	1,208	1,199	Results show slight improvement, reflecting Energy Management Program's continued success.
3.3 Implement cost-effective information technology solutions that meet our customers needs				Because of organizational changes, only packaged systems software applications were implemented affecting a limited number of users.
• % of customers indicating BCBC's IT solutions met expectations ||	68%	Establish baseline	N/A	

* This measure has been renamed to differentiate it from general and administrative costs, as reported in the Financial Statements.

Goal 4: High-Performance Culture

Key Supporting Strategies

- Develop and implement human resource management strategies to ensure a successful business transformation and to position the organization for the future. >
- Utilize change strategies that focus the Corporation's organizational transformation on people and cultural change to achieve our Core Services Review objectives. >
- Continue to use our performance development process to align team, individual and learning goals with our Corporate goals and core values. >

Objectives and Performance Measures	02-03 Actual	03-04 Target	03-04 Actual	Discussion
4.1 Strive to ensure that the Corporation has an appropriately skilled and diverse workforce to achieve its business priorities				During this year of transformation, most training was deferred. Training activities in 2004/05 will focus on addressing key competency requirements.
• Investment in training per employee	$1,343	$1,600	$899	
4.2 Achieve a high level of understanding among employees of how their work contributes to the Corporate Service Plan				Results are below baseline and target. (Note: Target originally related to 2003 biennial Employee Survey, which was deferred to 2004.) *See variance discussion of 2004 Employee Survey under Exceptions.*
• Percentage of employees indicating a strong understanding of how their job fits into attainment of Corporate objectives <	60% (2000 baseline)	65%	56%	
4.3 Achieve full employee participation in the Performance Development Process (PDP)				Target was under achieved. Results/target relate to 2002/03 Year End Summaries submitted during 2003/04. *See variance discussion under Exceptions.*
• Overall PDP participation rate <	86%	95%	83%	
4.4 Increase employee satisfaction				Results are significantly below target and baseline. A large number of employees indicated a neutral/ undecided response (37%). (Note: Target originally related to deferred 2003 Employee Survey.) *See variance discussion of 2004 Employee Survey under Exceptions.*
• Percentage of employees indicating "satisfied" or "very satisfied" on employee survey <	63% (2000 baseline)	66%	39%	
• Rate of absenteeism >	2.9%	<3%	2.8%	Low absenteeism rate continues to compare favourably to external benchmarks, and is consistent with internal benchmark (BCBC 5-year average of 2.8%).

Highlights and Exceptions

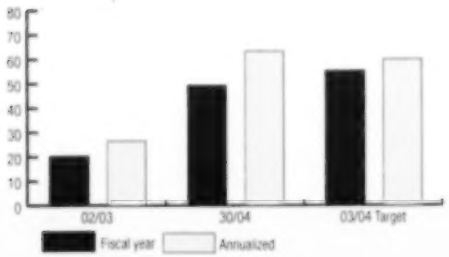
The following section provides a variance analysis of results for those performance measures where either (i) results have significantly exceeded targets or progressed ahead of schedule (Highlights) or (ii) results have not met targets, proceeded slower than schedule or have been delayed (Exceptions). For Exceptions, the analysis includes plans for addressing risks/issues affecting performance.

Note: Trend information is included when available. For additional trend information see the Management Discussion and Analysis section (pages 21 to 26).

Highlights

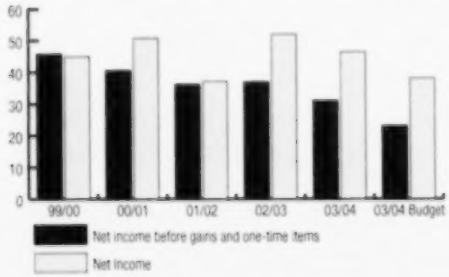
GARI Building Occupancy Cost Savings ($M)

Building occupancy cost (BOC) savings of $49.2M were realized during the fiscal year, $26.5M in annualized BOC savings from projects implemented during 2002/2003, and $22.7M in savings from projects implemented during 2003/2004. The three-year target of $60M/yr for annualized BOC savings has been exceeded by over $3M and is now forecast at $63.3M. However, the 2003/04 fiscal year savings did not meet the original target of $55M, due to slippage of projects into 2004/2005. Approximately $8M in additional BOC savings is anticipated from GARI eligible accrued projects scheduled for completion early in 2004/05 (primarily Ministries of Forests, Children and Family Development, and Public Safety and Solicitor General projects).



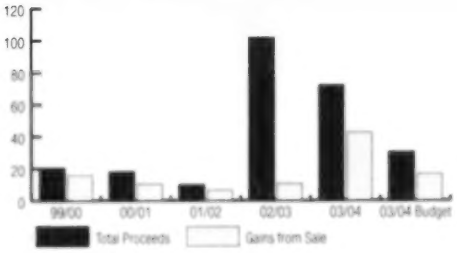
Net Income ($M)

Year-end net income and income before gains and other items were higher than budget by $8M due primarily to reduced net customer services and administrative costs (9.9% below budget). Net income results of $46.5M also reflected the impact of significantly higher gains from sale of properties, offset by one-time debt defeasance costs and higher than budgeted corporate restructuring costs.



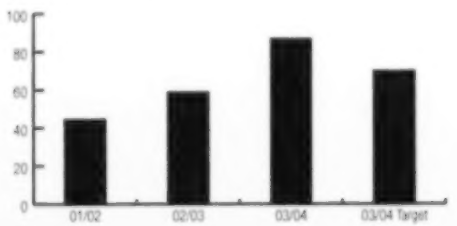
Property Disposals ($M)

140 properties were sold in 2003/04 with total proceeds of $71.9M and gains from sale of $42.6M over double the original budget ($30M proceeds/$16.6M gains). This was due to the acceleration of highway yards, office and corrections site disposals, as well as advancement into 2003/04 of a number of disposals previously planned for 2004/05, most notably the sale of Woodlands (with proceeds of $18.4M and gains of $10.7M).



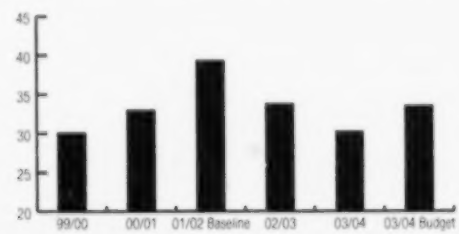
Status of Risk Management Activity – Contaminated Sites Remediation (%)

The remediation process has been completed on 87% of sites in the BCBC portfolio for which a high contamination risk was identified. This exceeds both the 2003/04 target (70%), and the 2004/05 target (86%) set in the new 2004-07 Service Plan.



Net Customer Services and Administrative Costs ($M)

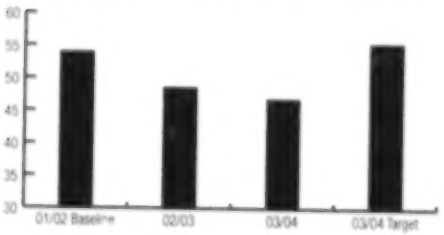
Net customer services and administrative costs for 2003/04 were $30.2M, significantly below the 2001/02 baseline (by 23.2%) and budget (by 9.9%). This is due to internal efficiency gains and a focus on aggressively reducing these costs during 2003/04.



Note: The original budget estimate in the 2003-06 Service Plan (i.e. a 10% reduction relative to 2001/02) was revised upwards (to a 14.8% reduction) based on 2002/03 year-end results and final 2003/04 budget estimates.

Operations and Maintenance (O&M) Costs ($ per m²)

2003/2004 results ($46.87/m²) are 15% below the 2003 BOMA benchmark (i.e. substantially below the target of at least 5%< benchmark) and slightly lower than 2002/03 (by 3%). O&M costs have decreased markedly over the past two years relative to the 2001/02 baseline (by 13%). The decrease since 2001/02 is due to sale of buildings with relatively high maintenance costs. Savings also resulted from reduced O&M employee costs as vacant positions were not backfilled pending outsourcing of Property Management Services.

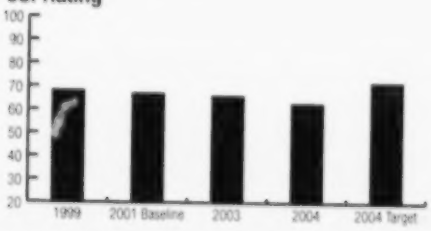


Exceptions

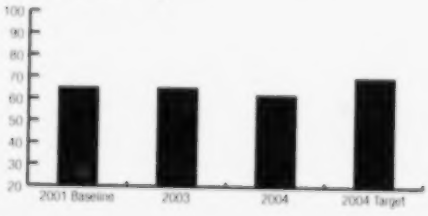
2004 Customer Survey

The Customer Satisfaction Index (CSI) rating obtained from the 2004 Customer Survey (62.7) was below target (72) and the Citizen's First public sector benchmark (65%), but was not statistically below the 2003 survey result (66). The "Choice" attribute rating (62.2) was also below target (70) and declined slightly relative to 2003 (64.9). Customers continue to feel BCBC has "good" people, and the "Service" attribute rating remains consistent over time at 70.1. Overall, 71% of customers indicated that BCBC's service is the same or better than before. However, the survey identified several areas requiring service improvement, including: 1) Immediacy of response and 2) Quality of people's work.

CSI Rating



CSI Choice Rating



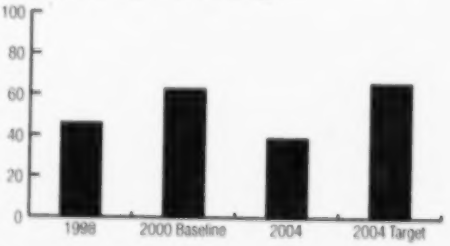
Potential factors affecting 2004 results include: internal changes (e.g. reduction in numbers/experience of staff due to retirements, and impact of outsourcing and transformation activities and higher than normal project volumes) and external pressures faced by customers. Also, survey results are a lag indicator, reflecting customer's experience over the past 12 months. The benefits/value of the service changes initiated during 2003/04 (e.g. outsourcing) had not been experienced by the customer at the time of the survey.

An action plan will be implemented. Follow-up interviews with individual customers will take place during 2004/05 to clarify underlying customer issues/concerns and identify tangible steps to address these issues.

2004 Employee Survey

The 2004 Employee Survey had a response rate of over 85%, which by industry metrics is considered very high. The percentage of employees indicating "satisfied" or "very satisfied" on the 2004 Employee Survey (39%) was significantly below target (66%), and than results obtained from the last employee survey conducted in 2000 (63%). It should be noted that a relatively high percentage of employees indicated they were "undecided" or "neutral" (37%), relative to those who indicated they were "dissatisfied" or "very dissatisfied" (24%), which likely reflects employee uncertainty regarding the future. Employee uncertainty is understandable given the timing of the survey and number and degree of organizational changes experienced over the year.

Employee Satisfaction Rating



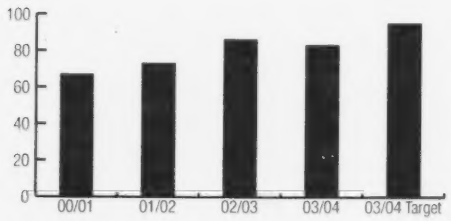
The percentage of respondents indicating that they understand how they help BCBC achieve its business goals (56%) declined from the 2000 baseline (60%), and is below the target (65%). Organizational and staff changes could also have affected this result. The new Performance and Compensation Management System implemented on April 1, 2004 is expected to clarify how individual performance links to corporate goals and objectives.

An action plan to address specific issues identified through detailed analysis of survey results will be developed and implemented in 2004/05.

BCBC has committed to developing a culture that promotes productivity and supports employees in contributing to achieving success for its customers. The implementation of this strategy will be instrumental in improving future employee satisfaction ratings.

Professional Development Process (PDP) Participation Rate (%)

83% of eligible employees submitted 2002/03 Year End Summaries, compared to 86% submitted for the previous year and to the target of 95%. This 12% below target result is attributed primarily to employees taking early retirement and heavy workloads associated with GARI. A new Performance and Compensation Management System is being introduced on April 1, 2004. This system links pay to performance and will allow for same year reporting of results.



Management Discussion and Analysis

Financial Performance

The Corporation's 2003/04 net income of $46.5 million exceeded budget of $38.1 million, by $8.4 million. Contributing to the financial results were the following significant factors:

- Operating revenues of $464.6 million were better than budget by $46.3 million (or 10%), primarily as a result of higher than anticipated levels of project activity related to provincial government accommodation restructuring. Partially offsetting the revenue increase were associated operating expenses of $40.7 million resulting in a net positive impact to income from operations of $5.6 million.
- Interest expense was lower than budget by $1.8 million resulting primarily from savings generated by early debt retirements during the year.
- Gains on sale significantly exceeded budget by $26.0 million due to an accelerated program of property sales.
- Net one-time expenditures of $26.5 million, primarily related to early retirement of long-term debt, were incurred.
- Total assets declined during the year to $826.4 million, reflecting the accelerated sales program and relatively low levels of new real estate capital investment activity.
- Net debt levels decreased during the year by $135.4 million or 29% from March 31, 2003.

The following table provides a summary comparison of the Corporation's financial performance compared to the 2002/03 actual results and the 2003/04 budget.

$ Million	2002/03	2003/04		
	Actual	**Budget**	**Actual**	**Variance**
Operating Revenues	461.2	418.3	464.6	46.3
Operating Expenses	(387.4)	(364.2)	(404.9)	(40.7)
Income from Operations	**73.8**	**54.1**	**59.7**	**5.6**
Interest Expense	(36.9)	(31.1)	(29.3)	1.8
Gains on Sale	10.5	16.6	42.6	26.0
Other Items	4.7	(1.5)	(26.5)	(25.0)
Net Income	**52.1**	**38.1**	**46.5**	**8.4**
Total Assets	**918.1**	**865.3**	**826.4**	**(38.9)**
Net Debt	**463.1**	**376.8**	**327.7**	**49.1**

Income Statement

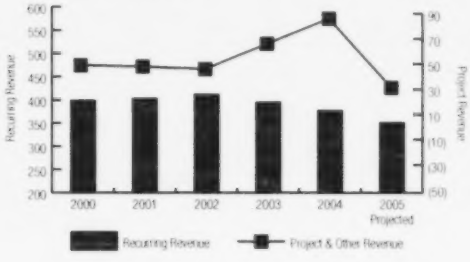
Operating Revenues

Although total operating revenue in 2003/04 of $464.6 million remained fairly static over 2002/03 levels, recurring rental revenues were lower by $19.3 million. Recurring rental revenues have been decreasing over the past two fiscal years due to provincial government downsizing, which has resulted in reduced accommodation requirements. This restructuring of provincial government ministry programs also affected BCBC's non-ministry customers who deliver government programs and services (eg. private highways contractors).

The Government Accommodation Restructuring Initiative (GARI) had the following impacts on the Corporation's revenue stream:

- In leading the initiative over a two-year period, BCBC implemented over 1,100 space and tenant improvement projects. In 2002/03 and especially 2003/04, revenues from one-time projects and advisory fees were at record levels. With the conclusion of the initiative in March 2004, project revenues in 2004/05 are projected to decrease by $56.2 million or 64% from 2003/04 levels.
- While recent project activity has been at an extremely high level, recurring rental revenues from building occupancy have been steadily declining as ministries, and other government entities downsize and rationalize their accommodation requirements. This impact has been most pronounced in the Corporation's owned portfolio of special purpose properties (correctional facilities, fish hatcheries, highways yards). From fiscal 2001/02 to 2003/04 total owned space recurring revenue has decreased by $32.8 million or 12%. This has resulted in the Corporation's operating margin (income from operations divided by total revenues) deteriorating by 3.8% to 12.8% and income before gains and other items decreasing by $6 million over the same period.

Project and Recurring Revenue ($M)
For the year ending March 31



- Concurrent with the reduction in the Corporation's recurring rental revenues, ministries and government agencies have benefited through ongoing accommodation savings. GARI will result in $63.3 million annual savings to government.

Operating Expenditures

Expenditures in 2003/04 decreased in most functional areas from 2002/03 levels with the exception of client and environment project costs. Portfolio related costs for leasing, operations, and amortization all declined during the year as the overall portfolio contracted in size, while taxes and grants and energy costs remained relatively static.

The dual challenge for the Corporation during 2003/04 was to effectively reduce corporate expenditures in line with the decreased recurring revenue, while maintaining sufficient service delivery capacity to manage and deliver the record level of one-time projects and the accelerated property sales program.

The Corporation managed this challenge through effective sourcing of private sector service providers, while reducing overhead costs and initiating an internal restructuring project to commence re-design of organizational processes. These initiatives contributed to lower net customer services and administrative costs, which decreased by 10.7% from 2002/03 levels. The internal business process re-alignment is continuing and is expected to be substantially complete by the end of 2004/05.

Environmental project costs increased during the year, as the Corporation accelerated its program of site remediation. At March 31, 2004, the Corporation had completed 87% of its site remediation program in comparison to a target of 70%. The majority of remaining remediation is expected to be completed in 2004/05. Following this, BCBC will remain focused on prevention and control of these potential liabilities. It should be noted that the vast majority of remediation costs are recoverable from customers as, in most instances, the contamination was caused by their activities while occupying BCBC facilities.

Interest Costs

Interest costs continued to decline in 2003/04 as the Corporation reduced its overall debt level and the average cost of debt through both scheduled debt maturities and early debt retirements. Annual interest costs have been reduced by over $10 million or 27% from 2001/02 levels.

Property Disposals

The Corporation's accelerated property disposal program in 2003/04 resulted in achieving gains on sale of $42.6 million. This represents the highest single year gains ever recorded. The 140 properties sold during the year generated gross proceeds of $71.9 million (net proceeds $60.6 million). Significant sales during the year were the disposal of the Woodlands and New Haven properties, both located in the Lower Mainland. These two properties generated gains on sale in excess of $10 million each.

As a result of changing customer accommodation requirements resulting from GARI and rationalization of the portfolio, the Corporation identified an additional 51 properties as being surplus to ongoing requirements. Surplus assets have been sold, or are listed for sale.

Other One-time Items

During the year the Corporation's income statement included the following significant one-time items:

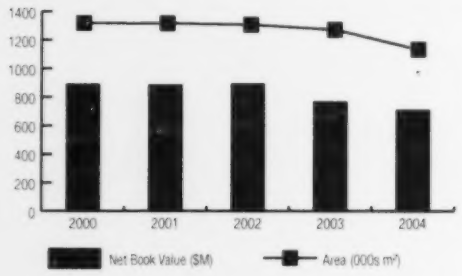
- A one-time cost of $29.6 million was incurred during the year related to net penalties on the early retirement of long-term debt instruments with a total principal value of $108 million. This one-time charge represents the coupon/market interest rate differential for the remaining term of the instruments retired.
- In December, 2003, BCBC signed a contract with Brookfield Lepage Johnson Controls Workspace Solutions Inc. (BLJC WSI) to provide property management services for the BCBC portfolio beginning April 1, 2004. While the ongoing impacts of this initiative did not affect the financial results in 2003/04, the Corporation incurred one-time charges in the year of $4.9 million related to the preparation, proposal, contract, and transition phases of the project. This arrangement will yield operating cost savings to BCBC and its customers in the range of $100 million over a ten year period.
- As noted above, a major impact of accommodation restructuring was the vacancy of special purpose properties. Because of the specialized nature of these properties and their limited alternative use, the Corporation recovers the outstanding building cost from customers who vacate before the end of their committed tenancy. These early terminations of customer tenancies in special purpose properties (primarily youth and adult correctional centres) resulted in net cost recoveries in the year of $8.1 million.

Balance Sheet

Real Estate Assets

The net book value of owned real estate assets decreased by $55.4 million to $711.6 million, reflecting the changing dynamics of customer demand and the Corporation's property disposal program. Since 2001/02, the size of the owned property portfolio has been steadily decreasing in both total area (14%) and total value (20%).

Owned Real Estate Assets
For the year ending March 31



During the year, BCBC completed $12.8 million in capital upgrade and alteration projects on the owned property portfolio.

Net Debt

Utilizing cash generated from operations and proceeds from property sales, the Corporation repaid $168 million in principal value of long-term debt and reduced net debt by $135.4 million.

As a result of these retirements, the Corporation's weighted average coupon rate on long-term debt decreased from 7.9% to 7.4%. These retirements will reduce future interest costs for BCBC. In addition BCBC customers, occupying special purpose properties, will realize cost savings. These occupancy charges are calculated using the Corporation's weighted average cost of debt.

Risk Management

Overview

BCBC's risk management activities operate in the context of the Corporation's strategic and operational objectives, responsibility for which rests ultimately with the Board of Directors. Senior management identifies the risk of objectives not being achieved through an environmental scan and a review of the Corporation's strengths, weaknesses, opportunities and threats (SWOT analysis) both conducted as part of the annual business planning process. These processes inform the development of strategies to mitigate risk at

the corporate and business unit levels. As part of the ongoing monitoring of performance and risk mitigation, the Corporation employs a performance measurement framework.

Consistent with good governance practices, operational risks are managed through clearly communicated authorities and accountabilities as well as a broad array of policies, practices and procedures. The Corporation maintains an internal audit function that utilizes risk assessment in the review of organizational activities, and a program to manage loss prevention, specifically, corporate insurance, business continuity planning and employee safety.

Additionally, the following risk management activities focus on industry specific risks:

- An Environmental Management System monitors and manages environmental contamination risk on properties.
- The due diligence process used on property disposals enables informed decisions which maximize the return to the Corporation while considering the risks of various options.
- Within the context of the Board approved "Ownership of Real Property Assets" policy, the Corporation is continuously working to provide prudent stewardship of public real estate assets for the shareholder. Some examples of ongoing activities are reviews of financial and functional building performance, comparisons of performance to market, conducting highest and best use studies on all properties designated as surplus and the aggressive management of vacant space.

At the employee level, BCBC encourages risk management through individual performance plans that link personal goals to corporate objectives, an established code of conduct and the inclusion of risk management in the Corporation's core staff competencies.

The following describes the risk management strategies employed by BCBC for the two largest initiatives undertaken during the year.

1. Property Management Outsourcing

The outsourcing of property management services in a relatively compressed time frame presented BCBC with a wide array of risks inherent in a project of this nature and magnitude. Risk management strategies adopted at the outset of the initiative were:

- Establishing clear principles for decision making and adhering to them throughout the initiative.
- Developing a comprehensive business case.
- Dedicating a team of knowledgeable employees led by the Executive Vice President, and providing the team with access to external expertise in outsourcing generally, and property management outsourcing specifically.

Risk management strategies were also developed to address risks identified in various phases of the initiative:

- A fairness advisor was engaged to ensure that BCBC's adherence to the principles of fair process and transparency could withstand rigorous scrutiny.
- BCBC's senior management performed a thorough due diligence process, including site visits and interviews of all short-listed proponents. This process provided assurance that the statements and claims made in the proponents' proposals were supported, and informed the contract negotiation process.
- From the date the contract was awarded to its effective date, the BCBC team maintained a one to one relationship with their service provider counterparts. This enhanced communication and promoted real time issues resolution and decision making, contributing to a smooth and successful transition.

The following has been instituted to manage the ongoing contract risk:

- Assignment of knowledgeable staff to monitor contract terms.
- Provision for a portion of the management fee paid by BCBC to be at-risk based on the service provider's performance against a set of key indicators. These indicators represent areas identified as critical to ongoing success based on the principles and objectives defined at the beginning of the project.
- A comprehensive audit rights section in the contract, providing BCBC with the right to audit any aspect of the contract as well as access to the records of suppliers used by the service provider.

2. Government Accommodation Restructuring Initiative (GARI)

In acting on behalf of government to manage GARI, BCBC managed a number of risks in order to meet the following objectives:

- Produce reductions in annual building occupancy charges (BOC's) to customers of $60 million.
- Ensure that projects funded from the $225 million allocated by government for GARI, met the eligibility criteria developed in consultation with Treasury Board Staff.

- Complete over 1,100 eligible projects within the two-year period ending March 31, 2004.

Managing a large volume of projects is one of BCBC's strengths; however, the circumstances of this initiative presented increased risk:

- In some geographic areas, a number of customer projects were interdependent. In these cases, an issue with one project could put several in jeopardy.
- The final three months of the eligibility period in 2003/04 coincided with the transition of property management services to BLJC WSI.

To mitigate the risk of not achieving these objectives, the Corporation adapted and enhanced processes and procedures already used to manage risk in the normal course of business.

- A steering committee (including Treasury Board Staff representatives) and a working committee were established, with representation from the relevant functional areas of the Corporation. This structure provided a vehicle to efficiently escalate system-wide issues and perform ongoing risk assessment and mitigation.
- Enhancements to business processes including systems for project tracking, forecasting and reporting were developed as part of a macro strategy to proactively manage and monitor the extraordinary volume of projects.
- Resources were devoted to training and communication to support a common approach among those responsible for assessing project eligibility.
- The Corporation reported frequently to Treasury Board Staff on spending and commitments against the $225 million fund and projected BOC savings.

Due to the magnitude of the property management outsourcing and GARI initiatives, the Corporation focused efforts on specific risk management activities in these two areas. Implementation of the risk management framework, which commenced last year, will resume in the upcoming fiscal year.

Outlook

The Corporation is evolving its business model as the government's accommodation shared service provider in order to provide services to customers more efficiently and effectively, while preserving and maximizing the value of the shareholder's assets.

Over the past two (2002/03 and 2003/04) fiscal periods, the Corporation's operating environment has changed dramatically:

- The Corporation's real estate portfolio has declined significantly due to the downsizing of the provincial government and BCBC's accelerated sales program.
- The Corporation has substantially transitioned from providing transactional services, to being a provider of strategic advisory services and manager of private sector supply.

These fundamental shifts will result in decreasing owned space rental revenue and associated margins. Operationally, the Corporation will continue to transform the organization and its key business processes to align with the new business model. The Corporation will undertake the following strategies to address the above-noted shifts while continuing to add value to the provincial government:

- Focus on minimizing vacant space and dealing with surplus and under-utilized assets. This will result in a reduction in BCBC's real estate assets.
- Pursue opportunities to continue reduction of debt and related debt servicing costs.
- Actively achieve further efficiencies in its operations and aggressively reduce customer services and administrative costs through review and redesign of business processes.
- Pursue business opportunities in provision of real estate advisory services to broader public sector customers.
- Leverage the property management outsource partnership with BLJC WSI to generate accommodation savings and operating efficiencies for agencies in the broader public sector.

Key Financial and Operational Comparatives (for the year ending March 31)

FINANCIAL	2004	2003	2002	2001	2000
Income Statement Related ($ millions)					
Gross Revenue	464.6	461.2	458.8	451.8	447.7
Net Customer Services & Administrative Costs	30.2	33.8	39.3	32.9	30.0
• as % of Revenue[1]	6.5	7.3	8.6	7.3	6.7
Corporate Operating Margin (%)	12.8	16.0	16.6	17.4	19.9
Income before gains & other items	30.4	36.9	36.1	40.5	45.7
Gains on Property Sales	42.6	10.5	6.6	10.4	15.9
Total Gross Proceeds from Property Sales	71.9	101.7	9.7	17.9	20.3
Net Income	46.5	52.1	37.3	50.9	45.0
Balance Sheet Related ($ millions)					
Total Assets	826.4	918.1	991.8	953.6	968.7
Net Debt	327.7	463.1	601.8	613.2	618.7
Return on investment (ROI) (%)	7.0	8.0	8.1	8.5	9.0
ROI on owned office buildings (%)	8.4	9.4	9.4	9.4	9.1
Return on equity (%)	13.4	16.6	13.2	18.7	15.8
OPERATIONAL	**2004**	**2003**	**2002**	**2001**	**2000**
Properties (m^2) • owned	1,122,263	1,267,193	1,303,612	1,312,210	1,314,195
• leased	657,372	701,369	690,552	695,077	691,003
• maintained	408,578	418,623	386,621	360,695	350,473
Office vacancy rate (%)	9.6	2.0[2]	1.9	2.0	2.0
Area managed per O&M employee (m^2)	7,303	7,414	6,275	6,135	5,994
O&M costs for owned office buildings ($/m^2$)	46.87	48.51	53.96	N/A	N/A
Status of Contaminated Sites Remediation Program (% completed)	87.0	58.9	44.7	N/A	N/A
Energy Intensity (MJ/m^2)[3]	1,199	1,205	1,229	1,283	1,262
Rate of employee absenteeism (%)	2.8	2.9	2.6	2.3	3.0
Number of employees [4]	732	756	850	858	833
Customer Satisfaction rating (%)	62.7	66.0	-	67.0	68.2 (98/99)

Notes:

1. Comprises costs relating to customer services, corporate general and administrative functions, and the non-recoverable component of service delivery and supply management functions.
2. Adjusted for Government Accommodation Restructuring Initiative activity; gross vacancy rate is 4.5%.
3. By calendar year (e.g., results for 1999/00 are for the 1999 calendar year).
4. Includes temporary and auxiliary staff. As of April 1, 2004 following transition of property management staff to BLJC WSI, the number of BCBC employees will be reduced to 359.

Financial Statements

Management's Report

The financial statements of British Columbia Buildings Corporation have been prepared by the management of the Corporation, which is responsible for their consistency, integrity and objectivity. The statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect management's best estimates and judgments based on currently available information. Financial information presented elsewhere in the Annual Report is consistent with that in the financial statements.

Management maintains and relies on a system of internal controls designed to provide reasonable assurance that the Corporation's assets are safeguarded, transactions are properly authorized and recorded, and that reliable and relevant financial information is produced. The Corporation's internal auditors independently review and evaluate these controls.

The Audit Committee comprises members of the Corporation's Board of Directors and oversees management's discharge of its financial reporting responsibilities. The Committee meets regularly with management, the internal auditors and representatives of the external auditors to review financial information prepared by management and discuss relevant matters. Both the internal and external auditors have full and free access to the Committee.

The external auditors, who are appointed by the Lieutenant-Governor-in-Council, have audited the financial statements which have been approved by the Board of Directors on recommendation of the Audit Committee.

John Beales
President and
Chief Executive Officer

Lak Parmar, CMA
Vice-President, Corporate Services and
Chief Financial Officer

May 7, 2004

Auditor's Report

To the Lieutenant-Governor-in-Council,
Province of British Columbia

We have audited the balance sheet of British Columbia Buildings Corporation as at March 31, 2004 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Victoria, Canada

May 7, 2004

Balance Sheet

$ 000s	March 31	
ASSETS	**2004**	**2003**
Real estate investments		
Income-producing properties (note 3)	677,446	720,195
Income-producing properties under construction (note 4)	14,023	19,031
Properties held for sale or development (note 5)	20,123	27,754
	711,592	**766,980**
Corporate properties and equipment (note 6)	10,545	12,597
Unamortized debt discount and issue expenses	7,624	8,008
Other assets (note 7)	96,595	130,468
	826,356	**918,053**
LIABILITIES		
Long-term debt (note 8)	320,652	463,062
Short-term debt (note 9)	7,000	-
Other liabilities (note 10)	138,121	122,930
	465,773	**585,992**
EQUITY		
Contributed surplus	52,832	52,832
Retained earnings	307,751	279,229
	826,356	**918,053**
Commitments (note 11)		

See accompanying notes to the financial statements.

On Behalf of the Board:

Lucie Gosselin, CA
Chair

Taryn Brodie, CPA
Director

Statement of Income and Retained Earnings

$ 000s	Year Ended March 31	
REVENUES	**2004**	**2003**
Rentals	377,246	396,567
Other income	87,311	64,605
	464,557	**461,172**
EXPENSES		
Lease costs	140,451	141,273
Operations and maintenance	97,843	99,161
Amortization	33,658	37,960
Client requested projects	74,168	52,458
Property taxes and grants	18,890	18,794
Energy	22,334	21,967
General and administrative	9,975	10,733
Environment	7,560	5,057
	404,879	**387,403**
INCOME FROM OPERATIONS	**59,678**	**73,769**
Interest expense (note 12)	(29,268)	(36,902)
Gains on sale of properties	42,605	10,535
INCOME BEFORE OTHER ITEMS	**73,015**	**47,402**
One-time debt retirement costs (note 13)	(29,626)	-
Property Management Outsourcing (note 14)	(4,926)	-
Cost Recoveries--Early Terminations (note 15)	8,050	13,119
Government Accommodation Restructuring	-	(1,945)
Early Retirement Incentive Plan	-	(1,183)
One-time lease charges	-	(5,270)
NET INCOME	**46,513**	**52,123**
Retained earnings, beginning of year	279,229	241,226
Dividend	(17,991)	(14,120)
RETAINED EARNINGS, END OF YEAR	**307,751**	**279,229**

See accompanying notes to the financial statements.

Statement of Cash Flows

$ 000s	Year Ended March 31	
CASH FLOWS FROM OPERATING ACTIVITIES	**2004**	**2003**
Net income	46,513	52,123
Non-cash items		
Amortization of capital assets and other amounts	34,029	38,412
Writedown of vacated properties	14,946	43,244
Gains on sale of properties	(42,605)	(10,535)
Other assets and liabilities, net change	17,886	(49,459)
	70,769	73,785
CASH FLOWS FROM INVESTING ACTIVITIES		
Real estate investments	(8,342)	(14,304)
Corporate properties and equipment	(1,878)	(3,659)
Net proceeds from sale of properties	60,598	97,969
	50,378	80,006
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term debt repayments	(168,000)	(1,061)
Decrease/(Increase) in sinking funds	25,590	(21,100)
Increase/(Decrease) in short-term debt	7,000	(116,530)
Dividends paid	-	(14,120)
	(135,410)	(152,811)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(14,263)**	**980**
Cash and cash equivalents, beginning of year	29,642	28,662
CASH AND CASH EQUIVALENTS, END OF YEAR (note 17)	**15,379**	**29,642**

See accompanying notes to the financial statements.

1. Statement of Purpose

British Columbia Buildings Corporation (the Corporation), established in 1977 as a Crown Corporation of the Province of British Columbia through the enactment of the *British Columbia Buildings Corporation Act*, has a mandate to serve as an agency of the Crown in providing real property and accommodation infrastructure services to the provincial government and the broader public sector. Corporate and customer accountability is achieved by charging market based prices for services rendered, and using private sector management principles. During the year the Corporation received 75% (2003 – 74%) of its revenues from provincial government ministries, 13% (2003 – 10%) from other provincial government entities, with the balance from other sources.

2. Accounting Policies

The financial statements of the Corporation are prepared in accordance with Canadian generally accepted accounting principles. The Corporation's significant accounting policies are as follows:

(a) Real Estate Investments and Corporate Properties and Equipment

Real estate investments and corporate properties and equipment are recorded at cost less accumulated amortization. In addition to land and direct costs, amounts capitalized to real estate investments during development and construction include property taxes and the applicable portion of both interest on general borrowings and general and administrative expenses. Capitalized costs do not exceed estimated future recoveries for income-producing properties and estimated realizable value for properties held for development.

(b) Temporary Investments

Temporary investments represent short-term funds administered by the Province of British Columbia. These investments are recorded at cost, which approximates market.

(c) Amortization

Real estate investments and corporate properties and equipment are amortized on an individual basis by the straight-line method over their estimated useful lives or lease terms. Amortization is prorated by month in the year of acquisition or disposal.

The estimated useful lives or lease terms of income-producing and corporate properties are from five to fifty years. The estimated useful lives of all other assets are from three to ten years.

(d) Income Taxes

The Corporation is exempt from federal and provincial income taxes.

(e) Amortization of Debt Discount and Issue Expenses

Debt discount and issue expenses are amortized on a straight-line basis, both over the terms of the applicable debt.

(f) Related Party Transactions

The Corporation is related through common ownership to all Province of British Columbia departments, agencies and Crown corporations. Transactions with these entities, as well as other transactions in which provincial government intervention is a component, are generally considered to be in the normal course of operations and are recorded at the exchange amount. Unless disclosed separately in these financial statements, this exchange amount approximates market.

(g) Environmental Expenditures and Liabilities

Under the current environmental legislation and the Corporation's standard accommodation agreement with customers, responsibility for site cleanup rests with the polluter. Environmental cleanup costs are recoverable from customers. These recoveries are included in other income.

Environmental expenditures incurred as a result of the ongoing business activities of the Corporation are expensed or capitalized as appropriate.

(h) Accounting Estimates

Financial statements, by their nature, contain estimates and are subject to measurement uncertainty. Accounts receivable are evaluated as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. The amounts recorded for amortization of capital assets and deferred charges are based on estimates of the useful life benefit of these assets. The effect on the financial statements of changes in such estimates in future periods is not anticipated to be significant.

3. Income-Producing Properties

	2004	2003
Net Book Value:		
Cost	1,180,585	1,236,769
Accumulated amortization	(503,139)	(516,574)
	677,446	**720,195**
Activity:		
Net book value, beginning of year	720,195	826,631
Properties transferred from income-producing properties under construction	12,792	26,187
Writedown of vacated properties	(14,946)	(43,244)
Disposals, net	(10,779)	(55,018)
Amortization expense	(29,816)	(34,361)
Net book value, end of year	**677,446**	**720,195**

4. Income-Producing Properties Under Construction

	2004	2003
Balance, beginning of year	19,031	32,557
Direct development and construction costs	6,109	10,754
Capitalization of:		
Interest	180	334
General and administrative expenses	1,495	1,573
Cost of properties completed and transferred to income-producing properties	(12,792)	(26,187)
Balance, end of year	**14,023**	**19,031**

Notes to Financial Statements

March 31, 2004 (Tabular amounts in $ 000s)

5. Properties Held For Sale or Development

	2004	2003
Balance, beginning of year	27,754	31,826
Capitalization of interest and property tax	559	735
Disposals, net	(8,190)	(4,807)
Balance, end of year	**20,123**	**27,754**

6. Corporate Properties and Equipment

	2004	2003
Cost:		
Office and data processing equipment	27,988	26,196
Corporate properties and leasehold improvements	8,009	8,773
Maintenance equipment	2,797	2,820
Vehicles	5,104	5,680
	43,898	43,469
Accumulated amortization	(33,353)	(30,872)
	10,545	**12,597**

7. Other Assets

		2004	2003
Cash		15,298	-
Temporary investments		81	32,500
Accounts receivable:			
Short Term	• Ministry of Finance (note 16)	48,799	64,079
	• Other provincial ministries and entities	17,760	20,919
	• Other	4,432	5,261
Long Term	• Provincial ministries and entities	1,776	904
	• Other	7,713	6,657
Prepaid expenses		736	148
		96,595	**130,468**

8. Long-Term Debt

	2004	2003
Debentures payable to the Province of British Columbia		
Various issues at an average effective interest rate of 7.39% (2003 – 7.92%) maturing at various times to 2029 (2003 – 2029)	454,512	622,512
Sinking funds on deposit with the Province of British Columbia	(133,860)	(159,450)
	320,652	**463,062**

At March 31, 2004, the coupon rates on the long-term debt ranged from 5.70% to 10.60% (2003 – 5.70% to 10.75%).

Principal payments, net of projected sinking fund balances at maturity, and sinking fund payments for each of the next five years:

2004/05	9,657
2005/06	9,657
2006/07	9,657
2007/08	7,587
2008/09	32,865

9. Short-Term Debt

At March 31, 2004 short-term debt of $7,000,000 was outstanding at an interest rate of 1.95%. This debt is payable to the Province of British Columbia and matures on April 21, 2004. There was no short-term debt outstanding at March 31, 2003.

10. Other Liabilities

	2004	2003
Bank indebtedness, unsecured	-	2,858
Accounts payable and accrued liabilities	52,832	46,692
Dividend payable	17,991	-
Holdbacks	9,994	10,238
Accrued interest payable:		
Province of British Columbia	6,801	10,418
Deferred revenue	50,503	52,724
	138,121	**122,930**

11. Commitments

The Corporation estimates that the cost to complete projects under construction at March 31, 2004 will be $7,587,000 of which $2,865,000 has been committed.

The Corporation has entered into leases with third parties to provide space for customers and corporate operations for varying periods up to the year 2023, at a total aggregate net rental of approximately $476,655,000. Most lease terms are from five to ten years and include renewal options.

Minimum lease payments which will be charged to operations in subsequent years for leases committed at March 31, 2004:

2004/05	106,784
2005/06	82,757
2006/07	63,519
2007/08	52,426
2008/09	40,494
Thereafter	130,675

The Corporation had outstanding letters of credit totalling $492,000 at March 31, 2004 to guarantee performance on various projects.

12. Interest Expense

	2004	2003
Interest on long-term debt	40,906	48,094
Other interest	(1,604)	(750)
Amortization of debt discount and issue expenses	371	452
Sinking fund earnings	(8,542)	(9,066)
Interest capitalized	(1,863)	(1,828)
	29,268	**36,902**

13. Retirement of Long-Term Debt

During the year, the Corporation retired long-term debt instruments with a principal value of $168,000,000. A net one-time charge of $29,626,000 was associated with these retirements.

14. Property Management Outsourcing

During the year, the Corporation entered into a contract with BLJC Workspace Solutions Inc. to outsource its property management services. The five year contract (with options to renew for a further maximum of ten years) for services with an approximate value of $110 million per annum took effect April 1, 2004. As part of the contract, 325 employees accepted employment with BLJC Workspace Solutions Inc.

One-time costs of $4,926,000 were incurred to implement the request for proposal, to prepare and negotiate the contract and to complete the transition. These costs included employee termination costs of $1,841,000 for those employees who elected not to transfer to BLJC Workspace Solutions Inc.

15. Cost Recoveries – Early Terminations

Special purpose properties (correctional centres, fish hatcheries, etc) are contracted to the Corporation's customers on a mortgage basis over the term of the estimated useful lives of the properties. Should a customer choose to vacate the property prior to the expiration of its useful life, the remaining balance owing by the customer is due to the Corporation as an early termination penalty.

The Corporation amortizes special purpose properties on a straight-line basis over their estimated useful lives, which results in net asset values that are lower than the outstanding principal balances owing by the customers. As part of government accommodation restructuring, a number of these properties are being

vacated by ministries. These cost recoveries of $8,050,000 (2003 - $13,119,000) comprise the termination penalties of $22,996,000 (2003 - $61,142,000), net of asset writedowns of $14,946,000 (2003 - $43,244,000) and costs associated with the early retirement of long-term debt of $0 (2003 - $4,779,000).

16. Government Accommodation Restructuring

In support of its overall restructuring initiative, the provincial government established a centralized fund for certain costs associated with accommodation restructuring. During the year, the Corporation invoiced $79,569,000 (2003 - $90,185,000) to the fund for accommodation restructuring activities which are reflected in the Corporation's financial statements as follows:

	2004	2003
Other liabilities (deferred revenue)	2,400	1,099
Rental revenues	7,832	2,499
Other income	46,336	15,324
Lease costs (expense offset)	3,837	1,147
Cost recoveries – early terminations (note 15)	19,164	53,763
Proceeds from sale of properties	-	16,353
	79,569	**90,185**

At March 31, 2004, $48,799,000 (2003 – $64,079,000) is included in accounts receivable (note 7).

17. Cash and Cash Equivalents

	2004	2003
Cash and bank indebtedness	15,298	(2,858)
Temporary investments	81	32,500
Total cash and cash equivalents	**15,379**	**29,642**

18. Employees' Benefit Plans

The Corporation and its employees contribute to the Public Service Pension Plan (the plan), a jointly trusteed pension plan. The board of trustees, representing plan members and employers, is responsible for overseeing the management of the plan, including investment of the assets and administration of the plan. The plan is a multi-employer, contributory defined benefit pension plan with over 54,000 active plan members and approximately 27,000 retired plan members. Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The latest valuation as at March 31, 2002, indicated a $546 million surplus for funding purposes. The actuary does not attribute portions of the surplus to individual employers. Contributions to the plan by the Corporation totaled $2,818,000 (2003 – $3,033,000) during the year.

In addition, employees are entitled to specific retirement benefits as provided for under the collective agreement and terms of employment. The Corporation accrues the liability for the future obligation for these benefits as the employees render the services necessary to earn the benefit. During the year, an expenditure of $486,000 (2003 – $734,000) was recognized with respect to these retirement benefits.

19. Risk Management

(a) Interest rate risk:

In conjunction with the Ministry of Finance (the Corporation's fiscal agent), the Corporation may enter into interest rate agreements to manage its exposure on debt instruments. The terms of these instruments are disclosed in notes 8 and 9.

(b) Credit risk:

The Corporation grants credit to its customers, the majority of whom (note 1) are Province of British Columbia entities. Management feels that any risk associated with such a concentration of credit is offset by the fiscal stability of these clients.

(c) Fair value of financial instruments:

The carrying amounts of financial instruments, other than long-term debt, included in the balance sheet approximate their fair value, due to their short- term nature. The fair value of the Corporation's long-term debt, net of sinking funds, at March 31, 2004 was $389,012,000 (2003 - $561,063,000). The fair value of the long-term debt has been estimated based on current market rates for long-term debt with similar terms and conditions.

20. Comparative Figures

Certain balances of the preceeding period have been reclassified to conform with the current year's financial statement presentation.

Report on Corporate Governance

BCBC Governance Practices

To guide British Columbia Buildings Corporation in fulfilling its mandate and setting its direction, a maximum nine-member Board is appointed by the Lieutenant-Governor-in-Council. Currently, the Board is composed of eight independent Directors, chosen on the basis of their skills, expertise and experience.

A Governance Manual, which sets out the Corporation's governance framework, was jointly developed by BCBC's Board and Management in 2001. In 2003/04, it was updated and revised to align with the government's new Governance Framework for Crown Corporations. Corporate governance describes the process and structure for overseeing the direction and management of a corporation so that it effectively fulfils its mandate. For Crown Corporations, this mandate involves attainment of both public policy and commercial objectives. A clearly articulated governance framework enables: clarity of lines of responsibility and accountability; effective/strong working relationships; agreement on objectives, expectations and results; accomplishment of corporate mandates; and, promotion of open communication between customers, the Shareholder, Board and Management.

BCBC's governance principles (articulated in its Governance Manual) are:

- Leadership;
- Stewardship;
- Trust and transparency;
- Accountability and performance; and,
- Continuous improvement.

The Governance Manual also includes guidelines, which clarify the roles, responsibilities and linkages of the Shareholder (including the Minister responsible), Board (including the Chair) and Management (including the President and CEO). It also describes Board processes and the important Board-Management co-leadership relationship.

The Board has established and adopted terms of reference for two Board Committees: an Audit Committee and a Human Resources Committee.

Audit Committee

The responsibilities of this committee include: reviewing the internal audit plan; overseeing the audit function as performed by both external and internal auditors; reviewing the annual external audit report and the audited financial statements; and, participating with management in the periodic selection of the external auditor. A representative of the Office of the Auditor General (OAG) attends meetings of the Audit Committee; the purpose of this participation is to increase OAG's understanding of BCBC and to share with BCBC OAG's understanding of broader government operations.

Audit Committee — Taryn Brodie (Chair), Tod Cooper, Mike Delesalle and Lucie Gosselin.

Human Resources Committee

This committee reviews information and makes recommendations regarding compensation, labor relations and key human resource policies and practices. They are also responsible for the recruitment, succession planning and performance planning and evaluations of the President and CEO. The committee also reviews the President's recommendations regarding compensation, evaluation and changes for those Executive Vice President /Vice President positions that report directly to the President.

Human Resources Committee — Peter Cook (Chair), Gary Cowan, Lynne Fehr, (until November 2003) Maureen Nicholls and Randy Zien.

Additional Board committees and ad hoc committees dedicated to particular issues may be established as required.

BCBC has adopted, for both Board members and employees, a Code of Conduct that sets out expectations for corporate behavior relating to duties of care and ethical standards.

The Board enjoys and encourages open and candid communication with Senior Management. Senior Management attends all Board meetings. However, the Board also ensures its independence by meeting in camera at every Board meeting without Management present. This year, the Board also conducted a self-evaluation to identify strengths and areas requiring improvement.

Discussions of general and specific strategic initiatives and risks facing the Corporation are a regular part of each meeting. In addition, during 2003/04, the Board devoted an entire planning meeting to a discussion with Senior Management on BCBC's future strategic direction. It also approved the 2004/05 Shareholder's Letter of Expectations. This Letter, signed by the Minister Responsible for BCBC on behalf of the Shareholder and by the Board Chair on behalf of the Corporation, confirms the shared understanding between the Shareholder and the Corporation on key governance issues, corporate mandate and core services, public policy issues, strategic priorities and performance expectations.

Over the past year, in addition to approving the 2004 – 2007 Service Plan (including annual and multi-year budgets and financial forecasts); key elements of the 2002/03 Annual Report; and the Shareholder's Letter of Expectations, the Board, working with Senior Management, approved a number of significant strategic initiatives. These included approval of:

- A master service agreement with Brookfield LePage Johnson Controls Workspace Solutions Inc. (BLJC WSI) which created an outsourcing partnership for the provision of property management, project management and related services on behalf of BCBC;
- A corporate reorganization plan including a Performance Management Framework and new corporate competencies; and,
- Delegation of authorities to reconfirm governance accountabilities and facilitate efficient transactions.

Board of Directors

Lucie Gosselin
Chair, Nanaimo

Taryn Brodie
Vancouver

Peter Cook
Vancouver

Tod Cooper
Kamloops

Gary Cowan
Vancouver

Lynne Fehr
Prince George

Maureen Nicholls
Victoria

Mike Delesalle
Vancouver

Randy Zien
Vancouver

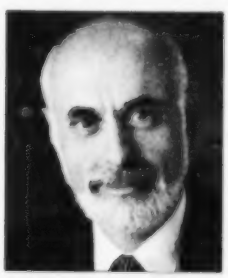
During 2003-04 the following changes occurred on the Board of Directors: Lucie Gosselin was appointed Board Chair in June 2003. She had been acting in this capacity since October 2002. Peter Cook was reappointed in June 2003. Lynne Fehr retired in November 2003. Maureen Nicholls was appointed in December 2003.

Executive Committee

John Beales
President
and Chief Executive Officer

Sharon Halkett
Executive Vice President,
Customer Services

Lak Parmar
Vice President, Corporate Services
and Chief Financial Officer



Brian Kennedy
Vice President,
Portfolio Management

Barry Herring
Assistant Vice President,
Supply Management

Herman Starink
Assistant Vice President,
Customer Services – Central

Marie Robertson
Assistant Vice President,
Customer Services – Regional

Glossary of Terms

Accommodation Infrastructure
Accommodation infrastructure includes the buildings, facilities and properties that make up workplaces, as well as workplace tools, such as furniture and telecommunications.

Building Occupancy Charges (BOCs)
BOCs include payments by provincial ministries and government organizations for the rental and maintenance of buildings and office accommodation, including related operating costs (such as insurance, taxes and tenant improvements that do not meet the criteria for capitalization). These charges appear as operating expenses in the Province's Consolidated Revenue Fund.

Shared Services
Shared services is the sharing and leveraging of resources, people and information to reduce costs and improve service quality. It involves bringing together functions that are frequently duplicated across divisions, subsidiaries or operating units and offering these services more efficiently and at a lower cost, through a shared services centre.

Supply Management
Supply management is the process by which BCBC plans, engages and manages internal or external resources (suppliers) to deliver solutions/services to its customers.

Stewardship
The term "stewardship" encompasses the preservation and enhancement of the assets and resources that have been entrusted to BCBC.

bcbc
Facilitating workplace solutions

British Columbia Buildings Corporation
2003-2004 Annual Report

This entire report, in accordance with British Columbia Buildings Corporation environmental practices, is printed on paper that is elemental chlorine free, acid free and is both recycled and recyclable.

Printed in British Columbia, Canada